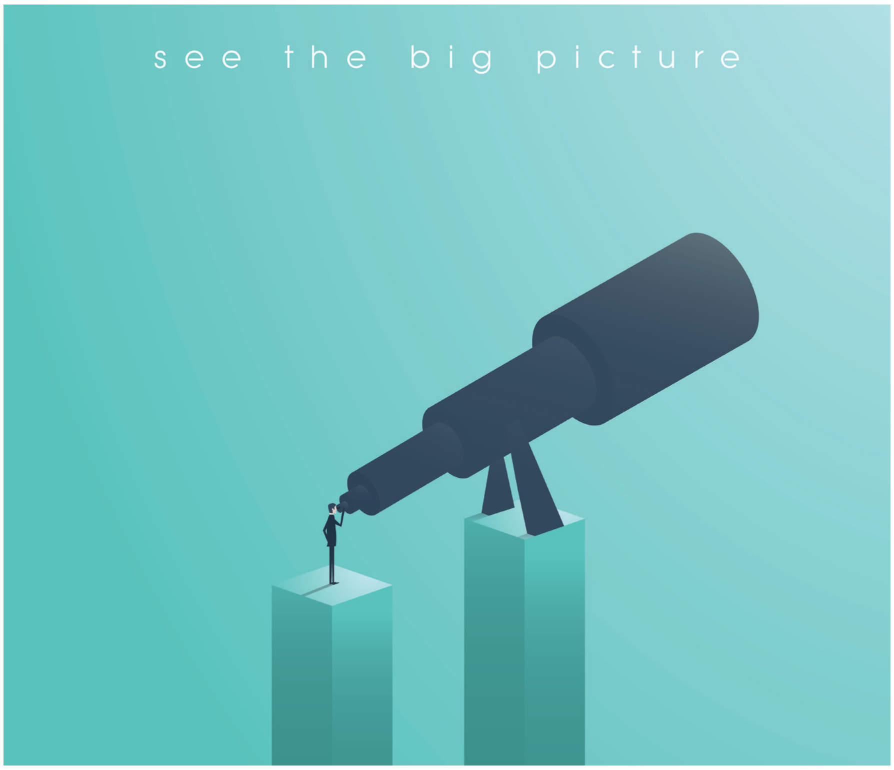
Pensions governance: Step back and see the big picture

Suzi Lowther reveals why pension fund trustees need to take a holistic view to pension fund governance



Once upon a time many people thought of pension scheme governance as analogous to compliance. We all now know the world has changed and governance means so much more.

The Pensions Regulator has certainly been busy on the topic, introducing 21st century trusteeship to us last year and, more recently, issuing new compliance and enforcement bulletins. But what are trustee boards actually doing in practice?

We're seeing three key themes – strategy, effectiveness and efficiency.

Go back 10 years and trustee boards weren't really talking about a strategy for their scheme. They may well have had one, just not recognised or labelled it that way. Now, it is central to how many schemes are managed – and rightly so. This need to be strategic has brought pension trustee boards closer to the world of corporate governance. I have sat on the board of my local housing association for the past eight years and have found the convergence between governance and boards in the two sectors fascinating.

Trustee effectiveness is pivotal to the regulator's idea of 21st century trusteeship and a pension trustee board (like any other corporate board) needs to be made up of people with the right mix of skills, competencies, experience and knowledge. A board needs to work well together too. Assessment against a competency framework is one thing, real life behaviour is quite another.

A board that doesn't gel and give each other space to make sure the views of all are shared and heard isn't effective, no matter how experienced and knowledgeable the individual members are. I've seen it fail in practice. A small number of dominant individuals effectively crowd out those that are less vociferous – usually the tenant member on a social housing board or the member nominated trustees on a pension scheme board.

In social housing, I have been involved in board effectiveness reviews as a board member for several years now, but this type of formal review is relatively uncommon in the pensions world. I don't think it will be for much longer. Over the last year, more and more schemes are asking us to either carry out a full external board review for them or check how well their internal review processes are working.

To help assess and improve board effectiveness, we work alongside the Non-Executive Directors Association. Their expertise helps immeasurably by bringing ideas and experience from the 'outside world' into areas such as developing strategy, board dynamics and board member selection, as well as corporate governance tools and techniques that can work well in the pensions environment.

Understanding the effectiveness of a board hinges on three elements: purpose, people and process – the 3Ps. We have found that purpose – the main driver of having a clear understanding of the role, culture and objectives of the board itself – is often missing. Sometimes the mix of people isn't quite right – with some boards choosing to take on a professional independent trustee to help create the right environment for an effective board (as well as adding valuable pensions knowledge and experience).

Process takes us nicely onto our third theme – efficiency. Any governance structure naturally involves a significant amount of process and procedure. These tend to build up over time and are rarely reviewed and, if they are, it tends to be a piecemeal approach when an adviser or supplier is changed. Good governance requires looking them as a whole. As well as helping you understand where risks to the scheme sit – be that the potential for non-compliance with a statutory requirement (like signing a Chair's statement for defined contribution scheme) or the effect of a mis-timed investment decision – you may find areas where you make efficiency gains or improve member experience.

We have recently helped several scheme sponsors streamline governance to achieve efficiencies and focus trustee time. These clients had multiple pension arrangements and we could see having numerous trustee boards for what were often legacy arrangements made no sense from a time and cost perspective.

The Pensions Regulator's recent compliance and enforcement bulletins make it clear pension trustees who fail in their duties will face penalties. They highlight a worrying lack of governance and understanding of trustee responsibilities for some smaller pension schemes (under 100 members).

Employers with small schemes and tight budgets can be nervous of undertaking a trustee board review – which could help combat the increased likelihood of a failure to comply in these schemes – or appointing a professional trustee, who can help ensure penalty-free compliance and manage their scheme more effectively. Many see it as an additional layer of cost, which they believe they cannot afford. That's not looking at the whole picture.

We act as pension trustee for a number of small schemes and our remit includes managing scheme budgets and getting the best value out of advisers by focusing them on the key issues. This means scheme governance improves without increasing (and often reducing) the overall spend on advisory fees. Happy employer, happy regulator, happy scheme members!

The regulator's demands for more professional trusteeship and more effective governance are fair and only right for pensions scheme members. Our responsibility is to them, after all. Trustees and scheme sponsors need to be in the driving seat here, not advisers. Take a step back and look at things as a whole. It will enable you to spot the easy wins (there will be some), where you really need to improve and where you (and your members) have most to gain.

Written by Suzi Lowther, director of marketing and communications, PS Independent Trustees

In association with PSIT Independent Trustees

Case study

Our client had four defined benefit schemes with different trustee boards and only a few common advisers. As trustee to one scheme, we worked with the company to find a way to govern them all more efficiently.

The solution

With the challenges posed by merging schemes too difficult to overcome, we created a common trustee board for all four schemes with one trustee from each original board and an independent chair.

From the outset we recognised conflicts of interests may arise between competing interests of one scheme to those of another, so we implemented a robust conflicts of interest policy.

To maximise efficiencies and ensure a common meeting for four schemes would be practical, we reviewed scheme advisers, aiming to have the same set of advisers for each scheme.

We suggested a training day to help each trustee become conversant with the intricacies of each scheme and discuss how investment strategies could be aligned and funding negotiations agreed.

Benefits gained

- 16 trustee meetings a year reduced to 4 – saving significant management time and costs.
- The employer and trustees work more closely together – a company representative attends each trustee meeting.
- Adviser costs have reduced – duplication of work and presentations to trustees have been removed.
- Greater compliance control and certainty for all schemes.
- Trustee expertise retained with broader knowledge and experience now benefitting all schemes.